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8 IN THE UNITED STATES DISTRICT COURT
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10 FOR THE NORTHERN DISTRICT OF CALIFORNIA

11 EPISTAR CORPORATION,

No. C 07-5194 CW

12 Plaintiff and Counterclaim
13 Defendant,

14 ORDER GRANTING IN
15 PART, DENYING IN
16 PART AND
17 DEFERRING RULING
18 IN PART ON
19 DEFENDANT'S
MOTION TO STAY

v.

20 PHILIPS LUMILEDS LIGHTING COMPANY,
21 LLC,

22 Defendant and
23 Counterclaimant.

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Defendant and Counterclaimant Philips Lumileds Lighting
Company has filed a motion to stay this action pending the final
resolution of In the Matter of Certain High-Brightness Light
Emitting Diodes and Products Containing Same, Inv. No. 337-TA-566,
a related investigation before the International Trade Commission
(ITC). The ITC's final determination is on appeal to the Federal
Circuit. Plaintiff and Counterclaim Defendant Epistar Corporation
opposes the motion. The motion was submitted on the papers.

1 Having considered all of the parties' papers, the Court grants in
2 part, denies in part and defers ruling in part on Defendant's
3 motion.

4 BACKGROUND

5 This case is part of a series of disputes between the parties
6 relating to the alleged infringement by Epistar of a light emitting
7 diode (LED) patent, United States Patent No. 5,008,718 ('718
8 patent), held by Lumileds.

9 In September, 1999, UEC filed suit against Defendant Lumileds,
10 Hewlett-Packard Co. and Agilent Technologies, seeking, among other
11 things, a declaration that UEC's products did not infringe the '718
12 patent. UEC and Lumileds settled that litigation in 2001 and
13 entered into two separate agreements: a settlement agreement (2001
14 UEC/Lumileds settlement agreement) and a patent license agreement
15 (UEC/Lumileds patent license agreement).

16 In 2002, Lumileds filed a complaint against several of
17 Epistar's customers in this Court, alleging infringement of the
18 '718 patent (2002 suit). On January 6, 2003, Epistar filed suit in
19 the Central District of California against Lumileds, seeking a
20 declaration that its products did not infringe the '718 patent and
21 that the '718 patent was invalid (2003 suit). The 2003 suit was
22 transferred to this Court after Lumileds amended its complaint in
23 the 2002 suit to name Epistar as a defendant and to include
24 allegations that Epistar's products infringed the '718 patent. The
25 cases were consolidated and were resolved when Epistar and Lumileds
26 entered into a settlement agreement. The agreement included a
27 covenant by Lumileds not to sue Epistar for infringement of the
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1 '718 patent based on Epistar's Omnidirectional Mirror Adhesive
2 (OMA) LED products and a license to Epistar to make, sell, use,
3 offer to sell and import AlGaInP absorbing-substrate LEDs (2004
4 Epistar/Lumileds settlement agreement).

5 In August, 2005, Epistar and UEC finalized a merger agreement
6 through which Epistar would acquire all of UEC's assets and
7 operations. The merger took effect on December 30, 2005 and UEC
8 was dissolved.

9 On November 4, 2005, Lumileds filed a complaint with the ITC
10 alleging, among other things, a violation of the Tariff Act of 1930
11 based on the import of certain LED products that infringe the '718
12 patent. Epistar was one of the respondents named in Lumileds'
13 complaint. During the course of the investigation, Lumileds
14 alleged that Epistar's OMA products infringed the '718 patent. The
15 ITC entered a final determination that Epistar's OMA products
16 infringe the '718 patent and entered an exclusion order precluding
17 Epistar from importing its OMA LED products into the United States.
18 Epistar appealed the ITC's final determination to the Federal
19 Circuit.

20 At the same time that it filed its complaint with the ITC,
21 Lumileds filed another complaint in this Court, alleging
22 infringement of patents including the '718 patent (2005 suit).
23 That case was stayed at Epistar's request pending resolution of the
24 ITC proceedings.¹

25 ¹The 2005 suit was stayed pursuant to 28 U.S.C. § 1659, which
26 provides,

27 In a civil action involving parties that are also

1 On October 10, 2007, Epistar filed the instant complaint
2 alleging that, after the entry of the ITC final determination,
3 Lumileds sent false and misleading letters to Epistar's existing
4 and potential customers about the scope of the ITC's findings.
5 Those letters, Epistar argues, improperly suggest that the ITC
6 determined that all of Epistar's products infringe all three of the
7 patents it considered. Therefore, Epistar claims that the letters
8 constitute (1) unfair competition under the Lanham Act,
9 (2) intentional interference with Epistar's prospective economic
10 advantage, and (3) unfair competition in violation of California
11 Business and Professions Code § 17200. Epistar seeks to enjoin
12 Lumileds from continuing the allegedly misleading communications.
13 Epistar also asserts that Lumileds breached the covenant not to sue
14 contained in the 2004 Epistar/Lumileds settlement agreement by
15 filing the ITC complaint and the 2005 suit alleging infringement of
16 the '718 patent. Finally, Epistar seeks a declaration that the
17 2001 UEC/Lumileds settlement agreement became null and void when
18 Epistar acquired UEC and that the Epistar/Lumileds settlement
19 agreement controls.

DISCUSSION

21 It is well-established that "the power to stay proceedings is

23 parties to a proceeding before the United States
24 International Trade Commission under section 337 of
25 the Tariff Act of 1930, at the request of a party to
26 the civil action that is also a respondent in the
27 proceeding before the Commission, the district court
shall stay, until the determination of the Commission
becomes final, proceedings in the civil action with
respect to any claim that involves the same issues
involved in the proceeding before the Commission.

1 incidental to the power inherent in every court to control the
2 disposition of the cases on its docket with economy of time, effort
3 for itself, for counsel, and for litigants." Landis v. North Amer.
4 Co., 299 U.S. 248, 254 (1936); see also Ethicon, Inc. v. Quiqq, 849
5 F.2d 1422, 1426-27 (Fed. Cir. 1988) ("Courts have inherent power to
6 manage their dockets and stay proceedings.") As the Ninth Circuit
7 instructs,

8 A trial court may, with propriety, find it is efficient
9 for its own docket and the fairest course for the
10 parties to enter a stay of an action before it, pending
11 resolution of independent proceedings which bear upon
12 the case. This rule applies whether the separate
proceedings are judicial, administrative, or arbitral in
character, and does not require that the issues in such
proceedings are necessarily controlling of the action
before the court.

13 Leyva v. Certified Grocers of Cal., Ltd., 593 F.2d 857, 863-64 (9th
14 Cir. 1979).

15 "In determining whether to grant a stay, courts generally
16 consider whether doing so would cause undue prejudice or present a
17 clear tactical disadvantage to the non-moving party." ASCII Corp.
18 v. STD Entm't USA, Inc., 844 F. Supp. 1378, 1380 (N.D. Cal. 1994).
19 Courts may also consider the stage in litigation, whether
20 substantial discovery has already taken place, and whether the
21 matter has been set for trial. Id. The party seeking a stay "must
22 make out a clear case of hardship or inequity in being required to
23 go forward, if there is even a fair possibility that the stay for
24 which he prays will work damage to some one else." Landis, 299
25 U.S. at 255.

26 Lumileds seeks a stay of this action pending the final
27 resolution of its claim before the ITC. Lumileds argues that the
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1 stay's duration would be finite and that the instant claims could
2 then be litigated along with the 2005 suit. Moreover, Lumileds
3 argues that there is significant overlap between this case, the ITC
4 claim and the 2005 suit.

5 I. Breach of contract claim based on the covenant not to sue
6 Lumileds asserts that Epistar's likely defenses to the
7 infringement claims in the 2005 suit are substantially intertwined
8 with Epistar's current breach of contract claim. Lumileds predicts
9 that Epistar will raise as a defense to the infringement claim, the
10 covenant not to sue contained in the 2004 Epistar/Lumileds
11 settlement agreement. This would be the converse of Epistar's
12 present breach of contract claim. Epistar does not dispute that
13 there is overlap between its breach of contract claim in this case
14 and the patent issues in the ITC proceeding and the 2005 suit.
15 Instead Epistar argues, "For efficient and orderly litigation
16 however, the issue of whether the license defense is successful
17 should preferably be decided first." Opposition at 6.

18 In addition to the overlap between the breach of contract
19 claim and the infringement claim in the stayed 2005 suit and the
20 potential for judicial economy in consolidating those claims,
21 Lumileds argues that Epistar will not be prejudiced if this claim
22 is stayed but Lumileds will be prejudiced if it is forced to
23 litigate the same issues twice. First, Lumileds asserts that
24 Epistar cannot argue that it will be prejudiced by a stay of this
25 suit because it is Epistar that requested a stay of the 2005 suit.
26 Epistar responds that it would be prejudiced because the ITC
27 exclusion order covers products that it claims are included in the
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1 covenant not to sue contained in the 2004 Epistar/Lumileds
2 settlement agreement. Therefore, Epistar asserts that staying this
3 claim will prolong the time for which it is wrongfully prevented
4 from importing products it is permitted to import under the terms
5 of the 2004 settlement agreement. Lumileds responds that Epistar
6 originally raised the covenant not to sue as a defense in the ITC
7 proceeding, but elected to abandon it on the fourth day of the
8 hearing before the ITC and therefore has now waived it.

9 Epistar replies that the parties agreed that Epistar's defense
10 that Lumileds breached the covenant not to sue "would be tried
11 separately in district court." It is not clear whether the parties
12 agreed to this, or, if not, whether Epistar has waived either its
13 claim or defense based on the covenant not to sue. This could be
14 resolved by motion, now or later. In any event, the scope of the
15 covenant not to sue necessarily requires an analysis of which
16 products are properly classified as OMA products that are subject
17 to the covenant. Lumileds argues that this is a technical issue
18 that is substantially related to the stayed patent suit.

19 The Court tentatively grants Lumileds' motion to stay with
20 respect to the breach of contract claim. The parties shall come to
21 the May 6, 2008 case management conference prepared to discuss the
22 factual issues necessary for the Court to rule on this question.

23 II. Declaratory relief claim regarding the UEC/Lumileds patent
24 license agreement

25 Lumileds also argues that Epistar's claim for a declaration
26 that it is not bound by the UEC/Lumileds patent license agreement,
27 entered into as part of the settlement of the 2001 suit between UEC

1 and Lumileds, should be stayed pending the resolution of the ITC
2 claim because Epistar has addressed this issue in its defense of
3 the ITC action. Epistar counters that it has only relied upon the
4 UEC/Lumileds consent judgment and the 2001 UEC/Lumileds settlement
5 agreement, not the UEC/Lumileds patent license agreement. Lumileds
6 responds that one of Epistar's own briefs before the ITC recognizes
7 that these three documents were part of the settlement of the 2001
8 suit. Moreover, Lumileds points out that the UEC/Lumileds patent
9 license agreement and the consent judgment are themselves exhibits
10 to the 2001 UEC/Lumileds settlement agreement. Therefore, Lumileds
11 asserts that the patent license agreement is necessarily at issue
12 in the ITC proceeding and not properly before this Court.

13 The ITC found that Epistar is precluded from raising an
14 invalidity defense to Lumileds' claims because Epistar is bound by
15 the UEC/Lumileds consent judgment and the 2001 UEC/Lumileds
16 settlement agreement. The ITC also found that under the terms of
17 the UEC-Epistar merger agreement and Taiwanese law, under which the
18 merger agreement was executed, Epistar has assumed all of UEC's
19 rights and obligations and is therefore UEC's successor. Based on
20 these findings, the ITC concluded that Epistar was bound by an
21 agreement not to challenge the validity of the '718 patent
22 contained in the UEC/Lumileds settlement agreement and dismissed
23 Epistar's invalidity affirmative defense. This is one of the
24 issues Epistar appealed to the Federal Circuit. In its brief to
25 the Federal Circuit, the ITC states that "Epistar, now standing in
26 UEC's shoes is barred from raising an invalidity defense to the
27 assertion of infringement of the '718 patent against any product,

1 including 'future products.'" Wu Decl., Ex. F at 15.

2 None of Lumileds' exhibits demonstrate that the ITC considered
3 the UEC/Lumileds patent license agreement. In fact, the ITC
4 specifically states that it considered the UEC/Lumileds consent
5 judgment and the 2001 UEC/Lumileds settlement agreement but does
6 not mention the patent license agreement. Nonetheless, it is quite
7 clear that the interpretation of the UEC-Epistar merger agreement
8 is at issue in the ITC. The meaning of the merger is one of the
9 key questions that will need to be determined before deciding
10 whether Epistar is bound by the UEC/Lumileds patent license
11 agreement. Therefore, the Court grants Lumileds' motion to stay
12 with respect to this claim.

13 III. Claims for injunctive relief

14 Finally, Epistar argues that the injunctive relief it seeks on
15 its claims for unfair competition and intentional interference with
16 prospective economic advantage weigh against granting the stay.
17 These claims assert that Lumileds has improperly represented to
18 Epistar's customers the scope of the ITC's exclusion order.
19 Lumileds counters that the scope and propriety of the exclusion
20 order remain in question and are presently on appeal to the Federal
21 Circuit. However, the Federal Circuit's decision will not impact
22 claims related to the manner in which Lumileds has represented and
23 continues to represent the ITC's exclusion order. Epistar claims
24 that it has and will continue to suffer harm based on the alleged
25 misrepresentations. Therefore, the Court denies Defendant's motion
26 to stay with respect to these claims.

1 CONCLUSION

2 For the foregoing reasons, the Court GRANTS in part, DENIES in
3 part and DEFERS ruling in part on Defendant's motion to stay
4 (Docket No. 30). As stated above, the parties shall come to the
5 May 6, 2008 case management conference prepared to discuss
6 the extent of the technical issues raised by the question of which
7 products are properly classified as OMA products subject to the
8 covenant not to sue.

9 IT IS SO ORDERED.

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11 Dated: 4/2/08

12 CLAUDIA WILKEN
13 United States District Judge